

## **SOME THOUGHTS BY JOHN COBB**

Soon a major crisis will face all Montanans.

For all practical purposes, we have capped our state income tax system. Even though the total income steadily grows in this state, with all the deductions and credits we have permitted, and less corporate tax is now collected, resulting in an income tax system which can no longer collect a sufficient percentage of income to fund our existing state government.

We have future state budgets that can not pay for existing state funded programs

For years we have been relying on federal dollars to hold up the Montana economy and the state budget. Over one half of the state budget is now federal dollars.

This federal money is not just funding the poor: it is everywhere, providing for our senior citizens, our roads, our businesses, our communities, everywhere.

This federal money comes from not just federal taxes, but from federally printed or borrowed money that we can not pay back.

The people of United States and through their representatives in Congress can not stop this borrowing or printing of money until we have a crisis to force Congress to act.

A crisis will soon occur that will force Congress to begin to cut or slow down these federal dollars to the states and Congress will have to raise taxes.

When this crisis occurs, Montana as it is now will not be a good state to live in. We are not willing to pay for existing programs, we are going to be short federal existing dollars, and we have an older population, with no great prospects for major economic growth in this state. We are trying to survive in an increasingly competitive world.

We will fight a zero sum game between ourselves, believing that the only way to survive is to take funding away from others, community against community, urban vs. rural, east vs. west. It is so easy for the legislature to cut the poor first, then who is next? The legislators will fight for their particular constituencies, tax someone else or cut someone else but leave us alone will be the call, blame someone for the economic woes of this state, talk about sales taxes to bail us out, and argue over the coal tax and then go home.

Lincoln once warned, "Divided we shall fall," and here in Montana we will divide and fall together.

We need now to think ahead of how we are all going to work ourselves out of this situation.

From my experience in the legislature, there is a way to work our way out of this pending problem.

There is much talk about economic development. We discuss economic development but argue over coal tax and sales tax, and usually the legislature will pass a resolution or study group to study economic development for two years. We may even pass an

“economic development” bill that helps a particular community or some business, and think that is about the best we can do. But we can do better.

We need to set goals for economic development, but instead of piecemeal stopgap measures, this time plan for the entire state, for all of us as an undivided whole. For instance if the economic growth for this state for the next few years is 2.5 %, should we, after analyzing data, set the goal of 3%. Should we set the goals for employment from 94.5% to 97%, for family incomes to earn an additional \$800 per family each year for the next several years? Should we set as goals to increase our many existing small businesses incomes, instead of trying to lure a large new employer to a particular community with tax incentives, only to have the company relocate after the tax incentives dry up? Even if we decide we can not raise the economic growth, at the very least and just as important let us set goals to maintain what we have in this competitive global economic war we are faced with.

Setting common goals, instead of simply funding one economic project, forces and allows everyone to bring forth their ideas. It allows every industry, every business and every group to help economic development. But they have to show how we get to the goal. Building one more coal plant or one more major business is not enough. Many different ideas will have to be accepted to reach those goals. There of course will be conflicts between ideas, but it forces us to find a way to resolve those conflicts or chose between ideas if we want economic development for the entire state.

We really can have a legislature and Governor Work together to get economic development for all Montanans.

Setting broad goals does work—if we DO THE WORK. For instance, the governor set a goal to reduce taxes and she got it done. The legislature has in the past set goals in specific areas dealing with education, or humans service problems and they found ways to meet those goals. How we got there may not have been how we started out, but setting goals and looking at all ideas forces people to work together for a common goal.

We all set goals individually and try to meet them. We must now set goals for the entire state, so no one is left behind, and all have an opportunity to help in economic development. No one should be left behind.

United we can do these wonders, but divided we shall fail for not only ourselves but for the generations to come.

As a draft report, I have listed below ideas that may help move forward our goal toward economic development as well as provide an improved social network for Montanans. If they are not acceptable so be it. I will be working on these ideas over the next few months to be more specific as well as to incorporate other ideas that may come to my attention. If I am persuaded that some of these ideas are bad I will discard them so fast as if they never have occurred. As you can see, some ideas need more details and I will flesh out the details in the coming months.

### **The budget and economy problem:**

The state economy grows around 2-plus percent per year. The government spending of state dollars and fees has been at a higher growth rate per year. Even though government spending at the state level is a smaller portion of the total economy you can not continue to grow at a higher rate than the economy if you are not going to raise taxes.

Even if you raise taxes they are only a temporary fix because if you want to grow at a higher rate in government and the economy does not grow at a faster rate, you still run out of money for government spending. For years we could spend more total government spending because of all the federal dollars that came to Montana. We still need those federal dollars, but we need to diversify from just federal dollars and increase our own economy to pay for our own services.

I heard that the legislative fiscal division is going to do more research on this issue of the growth of the economy vs. what the growth rate is for government spending. We should encourage this study to be done before the next session.

Even if you pass a sales tax, with all kinds of property tax relief, you still have the same problem. If you are going to grow at a higher rate of spending in government than the economy is growing, you eventually have the same problem of running out of government revenue.

There has been talk that a sales tax will improve the economy. But that needs to be shown and by how much the economy will grow with a sales tax vs. no sales tax. If there is going to be a sales tax, then show us how the economy will truly grow faster, and not simply shift tax burdens to someone else.

Historically, if you have to cut the budget or move money around in the budget to education or the university system without raising taxes, then you have to cut human services. However, every time you cut one state dollar from human services there usually is the two dollars of federal match dollars that go with it. So for every dollar you cut or move elsewhere you need to cut three dollars out of human services, which money is taken directly out of the statewide economy. And in many cases we only cost shift the actual cost of those cuts to everyone else in Montana. More human service cutting is not going to help the economy work. If it could be shown that the economy would grow by cutting human services and moving the money elsewhere, then we should look at that. But until someone can show that cutting three dollars for every dollar saved is going to improve the economy right away, then it is not advisable to continue cutting human services.

It is my goal this coming legislative session to have no more cuts in human services. Where we can save money in improving social programs, then the money will be saved and put back in to pay for existing services and wage increases. It is my goal to raise the income of thousands of families in this state.

We have a growing elderly population on top of a relatively large poor income population. We do not have an economy growing enough to pay for all the existing public services especially if the federal government is going to have to rein in its spending in the near future.

We have total government spending that is growing at a faster rate than the economy. But one interesting fact: it is not the state general fund that has been growing so much as total state spending. We are spending less in state government general fund dollars than we have in past years. *What has been growing is all the other spending from federal and other dollars that are **not** state general fund tax dollars.* Total general fund dollar spending has gone up overall, but the major increase went to the counties and local governments to spend as they wish. *What has happened in fact is we are spending less state general fund dollars today than in past years.* Unless you raise taxes to pay for existing services, you have to keep cutting state government or at the very least stop reimbursing county governments as much as we do at the state level.

We could simply cut the spending to live within our growth of the economy. But then you have to start cutting K-12 by tens of millions of dollars, cutting and closing university units and continue to cut human services. We create a death spiral *because* of cutting government. The more you cut, the more you have to keep cutting. We will have a fiscal crisis for several years. Currently, 1 of every 4 workers in this state works for some type of government entity. Perhaps we will have a “better” economy after that crash and all the loss of jobs and dollars in the economy. I do not think so, unless a lot of people leave the state that do not have high incomes, do not need disability or other health care services, or do not need to be educated. **You can not fix the budget unless the economy grows faster. You can not increase wages and business income unless the economy grows faster.**

So what is likely to happen in the next legislative session: We will spend most of the time fighting over a budget that is incapable of being fixed long-term unless we can grow the economy. So it is likely we will cut or at least hold the line on spending, continue to cut programs and federal dollars, wait for the courts to act against the legislature. For the Courts will become more active because we have laws that the legislature will not eliminate that give rights and duties to government and people which the legislature will then refuse to fund. We will argue over use of the coal trust fund. Even if we passed a sales tax, it would be years before we would see a positive effect, and we would continue to fight between ourselves over little bits of economic development scattered here and there.

Not a pretty sight. And yet every legislator wants to do their best in helping not only their own communities but the entire state. So how do we do that? How do we get a legislature that is by its very nature supposed to kill most new ideas and be slow in changes to do something bold?

So it's now the time to be bold. We need to grow the economy—the *whole* economy if we are to even have a chance of getting out of the long-term decline this state will face economically. At the very least we must make Montana competitive in a world economy if only for our economic survival. Growing the entire economy gives a chance to raise incomes of all Montanans, gives a chance to slow down the growth of government but not have a crash, and funds existing social and education programs that help us compete in a global economy as well as remember our ethics, morality and obligations by enacting our duties to others.

Possible solutions:

1. Set performance goals and timelines for the growth of personal income, job creation, unemployment, family income as well as lowering the cost of doing business versus the rest of the world. Once the goals are set we are faced with how to get to those goals. Every idea is now important as a way of getting the goals met, and not just a single idea that stands only on its own.
  - a. We can set these goals and timelines in the same manner that Vision 2005 was put into place.
  - b. The Legislature is a place where normally most ideas are supposed to be killed. It is not a place for rapid change. Most times special interest groups are fighting over asking for favors or to be treated differently than other Montanans. But this session should be different and must be different.

2. Set performance goals and timelines to have the cost of electricity and energy below that of the surrounding states.
3. Set performance goals and timelines to reduce transportation costs.

This means we can not allow Burlington Northern Santa Fe to continue to have these monopoly profits at our expense.

4. Update Vision 2005 goals for agriculture, as well as review results.
5. Implement as many of the unmet goals for Vision 2005 including expansion of irrigation to 100,000 more acres as well as picking up more Pick Sloan funds.
6. Burlington Northern can not continue to make monopoly profits in this state. If they can not through “polite persuasion” reduce rates, we must begin to force the rollback in monopoly profits. This could be done through anti-trust procedures, court actions, taxes, eminent domain proceedings as well as tax rebates ( perhaps through diesel rebates) for truckers to compete with the railroad rates. I also hear there may be problems with moving and storing grain in Canada in order to use their trains. If that is true, we need to get that resolved.
7. Set up “business assistants” (similar to what the Dept. Of Agriculture does with the extension service) in Dept of Commerce and perhaps the university units. These assistants help not only to inform new or existing businesses where to go to get permits, information, loans, etc but are at the meetings with these various institutions to help make sure the business entity understands any requirements as well as runs interference with the departments to get things done.
8. Continue to expand the identification of grain and livestock and other agriculture products with the Brand name of “Made in Montana.” National ID systems are coming soon for livestock. Perhaps we should make it clear on the ID’s that those livestock are also raised in Montana. “Montana” should be a brand name for as many Montana products as possible.
9. We may need to create one or two Development Centers similar to the one near Ronan called Mission Mountain Market. These are incubators that help agriculture create new products.
10. We have good research facilities at the university units. However, we should review the research and whether research is being completed and being utilized for Montana’s benefits, and not just for the university benefit. The university is supposed to have an economic plan under Board of Regents’ Chairman Mercer in the next several months and we shall see what it does. I hope though it has timelines and results based within their plan. Mr. Mercer has the best chance to direct the university to help all the economy of Montana.
11. There is much talk about retraining workers. Are we also are in need of retraining businesses? Are there the programs and information that help small businesses compete in a global and major corporation world? Are we teaching not just “marketing” but how to *sell*? These are questions that need to be asked in the coming months. We need to look at how we are retraining businesses to cope in a global economy.

12. We need to lower the tuition costs for the college of technology schools (vo-techs) and community colleges. We charge over 30% higher for tuition than surrounding and comparable states. The cost to the state of lowering tuition to just community colleges is between \$900,000 to \$1.5 million per year. In this nation and this state for the past several years we have done much to lower capital costs such as better depreciation rates, lower business equipment costs, and lower interest rates in order for businesses to compete in a global economy. However, we have not reduced the cost of training workers who are now needed. I believe it is in the public interest for the public and their taxpayer dollars to help reduce these training costs. I do not have the cost yet on what it would cost to lower all the tuition in the college of technologies. We may also have to spend around \$2-\$3 million more per year in the college of technology schools for better programs as well as new training programs. In return for this new money we need to ask the colleges to review their programs to see if they can graduate students faster and better trained. Maybe they can not, but this should be reviewed.

a. Example of helping economic development through expanded use of colleges of technology. Great Falls, Montana:

- i. Tuition per student is far above other comparable states. We need to lower the cost from \$1300 per student to \$800 per student like other states. This cost alone in Great Falls would be \$770,000 per year.
- ii. The college at Great Falls needs around \$1.8 million in renovation and expansion of rooms and new equipment for new or expanded programs such as welding and electronics.
- iii. To keep as well as recruit faculty especially in dental hygiene and health care as well as add needed positions would cost around \$650,000 per year.
- iv. A new program to retrain employers would cost \$75,000 per year.
- v. A new program to allow Great Falls to be more of a technology hub to demonstrate to employees and employers new technology and allow them to train better or try new technology to advance their business products. (A similar program is at Ronan.) This would cost \$75,000 per year.
- vi. The Great Falls College of Technology also would need \$100,000 per year for start up costs for new programs.
- vii. In the end we would have a better more competitively trained workforce. They would be paying taxes and spending more money within the state of Montana. Higher incomes help families live in this competitive world. Employers would benefit by better training and being able to compete in the world economy. We may not get ahead in competition but we can at least better hold our own.

13. We need to do more training for lower income workers especially those coming off welfare to get longer term and higher paying jobs. There is training money in the Dept. of Health and Human Services under the TANF program that could be used this summer to help people get off welfare through construction jobs and other jobs after training through the colleges of technology or other programs.

14. We must not cut back on child care. There is enough money for the next two years to make sure there are no more cut backs on child care for working families. There is still a shortfall in the rate of increase to providers. We need a rate increase to keep the small child-care centers going.

15. We need to revise the carry back provision in the corporate tax section of the income tax laws of Montana. For the last two years we have refunded over \$50 million in business tax refunds. We can not keep doing this. It wrecks the state budget and is not fair for a fair tax system. Perhaps Touch America can legally get a tax refund, but I question *should* we be allowing these rebates? Most states only allow businesses to go back 2 years for tax refunds. Montana allows three years. Another way to fix the problem of refunding taxes is to allow corporations to take off any refunds from future taxes to state government. A third possible solution would be to cap the amount of the refund.
16. We need to revise and simplify our state income tax system. We would be better off to eliminate many of the deductions and tax credits we have in this state and lower the income tax rates. I would make this change to be revenue neutral. This change would simplify the tax system and treat all Montanans more fairly. We should only collect what is needed and no more. Now we collect more than is needed and then turn around and give tax credits and deductions to some while others pay more even if the incomes are the same. Making the income tax revision revenue neutral will bring in additional dollars in the future. That is because the tax system will grow closer to the same rate as the economy than it does now and therefore additional dollars will come in to be used for government services or tax cuts again. A fair and simple system will grow this economy better than what we have now.
17. We need to do as much infrastructure rebuilding as we can in the next two to three years. There is a need for more state dollars today than the Treasure State Endowment can provide.
  - a. Perhaps Secretary Bob Brown's proposal will work. If it does not, we must seek other ways to fund infrastructure now -- perhaps simply to vote on extra funding each year from coal dollars to fund those infrastructure projects not funded on the Treasure State Endowment funding list. But we need to find a way that will allow for more infrastructure development as soon as possible and this means sitting down with the Democrats to see if there is a way. Because energy prices and coal prices are going to be rising in the coming years, we may be able to use as a temporary basis some of the coal taxes to fund some of this development. The coal tax fight has been so divisive over the years. Perhaps in this session we could find common ground to do so. If we can not use coal funds we will have to find other funds to do more infrastructure development.
18. We have a new program from the Federal level to clear and cut logs and brush away from urban areas, etc. due to possible fire danger. We must help insure that there are Montanans trained to do this work as well as help small Montana businesses get these contracts to do the work.
19. In any power line transmission development, we must ensure that all the electricity can not be transported out of this state in order to keep our electricity costs lower than other states. We need to use more wind generation and help small businesses and homes utilize this generation. For instance, other states have wind generation next to small towns to help lower the costs of energy. We must encourage net metering in this state. We must allow Montanans to help produce energy to lower our costs of electricity. We need to look at distributive energy generation as a way to produce power locally instead of using large transmission lines to move power. A major key to economic development is low energy costs.

20. We need to raise payment rates on Medicaid for thousands of providers who we pay below cost who take care of lower income Montanans. When the state pays below cost it simply cost shifts health care costs to the rest of us. There is the argument that we should keep cutting back on paying these providers because of the high cost of health care. Yet one of the major reasons for our high costs of doing business in this nation is our high health care costs for employees and businesses. So cost shifting Medicaid costs to our employees and employers does hurt us in competing in a world economy.

- a. We are paying many Medicaid providers (not counting hospitals and nursing homes) 40% of actual costs. We pay some surgeons and specialists less than 30% of actual costs. It would cost around \$4-\$6 million per year of state dollars to then match with federal dollars ( 1 to 3 ratio) to bring these providers closer to actual costs. No one is going to make money off this but it will help stop some of the cost shift to the rest of us. If the State of Montana does provide additional Medicaid dollars, there should be an emphasis to these providers as well as hospitals that they should not be charging full charges to the uninsured. There has been a problem in other states of providers and hospitals being too aggressive in collecting full charges against the uninsured.

At a minimum, we should raise the Medicaid rates for family practitioners such as obstetrical, pediatric and other family practice by 25% which would cost around \$2.5 million general fund dollars per year with over \$5 million funded with federal match dollars.

- b. I need to review how Medicaid can be moved to more of a consumer driven system of health care. Are we simply treating every symptom eligible for treatment by Medicaid or can we move to a better system that allows Medicaid patients to chose certain services over others as well as become better educated in their own health care treatment and prevention.

21. We should not cut the Chips program. It should remain a private insurance program. If there was only a small amount of extra dollars to spend, I would prefer to raise rates to Medicaid providers and raise salaries and wages to low income workers first before increasing the numbers on Chips.

22. It is a noble goal to move to universal health care but not for several years. At this time we can only afford to work at making Montana competitive and meeting certain economic goals. Raising incomes to lower wage Montanans should be the priority first before universal health care. Two areas we can work on now are catastrophic health care for all Montanans and developing small business purchasing pools. But these two areas take money, especially funding catastrophic health care and money is not plentiful right now. We may, though, be able to encourage small business purchasing pools without additional tax payer cost.

23. We should move to take care of more people in their own homes through more home health care. Home health care creates jobs -- with the money staying in the communities -- and costs less than nursing homes. There are around 500 people on waiting lists for home health care, supported living and adult residential facilities. That would cost around \$3.1 million in state general fund dollars per



- year to be matched with federal dollars. But right now this would be a lower priority for me to that of raising wages for employees who work in the health care industry as well as the other social service programs.
24. We should raise wages of home health care attendants, personal care attendants, homemaker attendants and other workers that help in Medicaid home health care and other Medicaid programs by one dollar an hour. This helps keep people off welfare, allows them to pay for more of their own health care and raises income. These people are the cornerstone of keeping health care costs low for senior citizens and the state of Montana. This would raise wages for 1000 workers and their families by \$2000 per year and would cost around \$584,000 state general fund dollars per year and be matched with \$1.4 million of federal dollars. This is one of the biggest bangs for your state tax dollars -- to raise incomes for working low-income families and help slow down the cost of senior citizen health care costs. This issue is a high priority for me.
  25. The state of Montana should have their agencies prepare for the demographic shift in the future to an elderly population and probably a smaller work force in state government. We need to examine our state retirement system because just as social security is going to go broke so will our retirement programs for new members that will be hired in the future unless we begin to change these systems.
  26. We should set the goal that there is at least some service provided to all disabled in this state. But at this time, I prefer to raise the wages first of the workers before adding additional services. I do not have the cost estimate of that wage increase at this time. I imagine though it is a few million dollars per year in state general fund dollars.
  27. Our budget system in the legislature does not work. We need to move to performance based budgeting as well as benchmarking results. Besides reviewing budgets, we need to set the goals or at least review the goals and timelines for agencies to meet those goals. We spend too much time deciding on hiring or eliminating an employee or whether the agency should get a car. State government is incapable of making rapid changes with our budget system as set up by the legislature. It is hard to respond or get things done quicker with this budget system. Furthermore, the legislature spends little if any time on non-general funded programs or agencies. The result is over two thirds of the budget gets little real review and very little oversight in setting goals that affect state government and the people of Montana. We must retrain the legislature to spend more time on setting direction for agencies and then following up to see that the goals are met.
  28. We need to better coordinate the drug enforcement, prevention programs and the criminal system in Montana. The Board of Crime Control should take the lead in coordinating all the drug programs in this state. I believe there is a proposal by some in the Board of Crime Control to do so. Even after that if you want to lower dramatically the drug problem especially with meth in this state it is going to cost around \$5-10 million per year. That is only a rough estimate. It has to be spent not just in building more prisons, but in prevention and law enforcement and especially drug treatment. This is going to cost money if you want to lower the problems of meth. It's going to take a state tax increase to do so.

29. We need to have a continuum of service for the mentally ill for both adults and children. You can't keep sending people to Warm Springs nor can you continue to try to cut the drug treatment away from Montanans as the last Governor tried to do. It costs around \$8-10 million for the biennium just to stay where we are at funding drugs for mentally ill persons. But by doing so it helps keep people out of Warm Springs by spending less than \$400 **per month** to keep them in their own homes vs. \$300 plus **per day** at Warm Springs. Community programs that provide mental health drugs keeps people working and in their own homes, which is far better for them and society and cheaper. Another problem in the mental health system is a lack of psychiatrists in the communities. I do not know what that cost will be to help provide more psychiatrists in the communities of Montana.

30. As for K-12 education. Senator Ryan as well as the Education Committee are working on some ideas and I will review them this summer after they make their recommendations. With the educational lawsuit going on, I think it is a wait-and-see issue at this time as to additional funding. Bottom line, many people do not want tax increases on themselves to pay for education, and the economy is not growing enough to fund a lot more money for education. Even a sales tax will only get us by a one-time increase for school funding. It is going to be impossible to add a lot of money to education unless the economy grows faster than projected. We can talk of administrative consolidation but in the end that will not result in enough money for what the education community thinks they need. I will still work on this issue this summer but I do not really have any break-through ideas on this issue at this time.

- a. We need to change how protested taxes affect local governments and schools. The state revenue department values the property, yet it is the local governments and schools that suffer if there is a protest on taxes due to the valuation. One of the ideas that I will look at is having the state pay the locals a greater portion of the protested taxes until the tax protest has been settled. We should see if the protest process can then be speeded up to complete in a shorter time period the issues surrounding the protested taxes. But bottom line we can not continue to punish schools and local governments for protested taxes over valuation that is determined by the state. If there are other ways to fix the problem I will look at them also.

31. We also need to increase the voting numbers in elections. There is the Republican Party, the Democrat Party, some smaller parties, the independents and a growing party-- the No-Voting "Party". We need to give reasons to the No-Voters to vote. I know a lot of people think their votes do not count. But every year in the Legislature I see laws killed or passed, money spent or cut, programs started or eliminated and it came down in many times to one vote. One vote does make the difference and yours can too. I hope this election the candidates can give you enough of a reason to vote.

32. Every candidate has plans to implement when they get elected. But the reality of the situation is that even though we have good intentions to implement those ideas we are soon overwhelmed with outside events that we had not planned on addressing. Also, there are 149 other legislators with their own priorities as well as hundreds of other ideas for change from other Montanans. So even though these are my priorities, being elected to implement one's own plans is not just enough, you have to be able to react to many other events and people and their own ideas and that is sometimes more important than one's own plans.

**In Conclusion:**

We have a federal government that must and will be forced to cut back on spending to state and local governments. We have a state budget that can not pay for existing services. We have an economy that is not growing fast enough to pay for existing services. We have a world economy that is destroying jobs, businesses and lowering incomes in this state. We have a growing elderly population and many low incomes working families.

We need to have State goals for economic development that assist the economy in growing faster. We need to implement those goals. We need to retrain and keep training employees and employers to compete in a global economy. We need to raise the wages of thousands of low-income workers in this state. We need to simplify our tax system. We need to keep taking federal dollars where we must fund federal mandates and raise wages of workers using state and federal dollars until the state economy can begin to pay for these services with a growing economy. We must rapidly rebuild our infrastructure. We need to fund our own social, educational and criminal programs as we see fit to do so in each community. We need to emphasis that no one is going to get left behind and that we are one State one people.

**Divided we shall fail, united we shall succeed.**